

**REPORT OF THE AUDIT OF THE
GRANT COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
June 1, 2006 Through April 21, 2007**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRANT COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
June 1, 2006 Through April 21, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Grant County Sheriff for the period June 1, 2006 through April 21, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$9,626,794 for the districts for 2006 taxes, retaining commissions of \$311,813 to operate the Sheriff's office. The Sheriff distributed taxes of \$9,317,535 to the districts for 2006 Taxes. Taxes of \$2,863 are due to the districts from the Sheriff and refunds of \$5,932 are due to the Sheriff from the taxing districts.

Report Comment:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Darrell Link, Grant County Judge/Executive
Honorable Charles E. Dills II, Grant County Sheriff
Members of the Grant County Fiscal Court

Independent Auditor's Report

We have audited the Grant County Sheriff's Settlement - 2006 Taxes for the period June 1, 2006 through April 21, 2007. This tax settlement is the responsibility of the Grant County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Grant County Sheriff's taxes charged, credited, and paid for the period June 1, 2006 through April 21, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Darrell Link, Grant County Judge/Executive
Honorable Charles E. Dills II, Grant County Sheriff
Members of the Grant County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 14, 2007

GRANT COUNTY
CHARLES E. DILLS II, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period June 1, 2006 Through April 21, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,262,474	\$ 1,050,851	\$ 4,797,397	\$ 1,122,199
Tangible Personal Property	69,306	81,576	276,918	172,142
Increases Through Exonerations	4,320	3,591	15,390	3,840
Franchise Taxes	174,700	159,526	642,122	
Bank Franchises	56,766			
Penalties	10,870	9,100	40,090	9,976
Adjusted to Sheriff's Receipt	(2)	15	6	92
Gross Chargeable to Sheriff	<u>1,578,434</u>	<u>1,304,659</u>	<u>5,771,923</u>	<u>1,308,249</u>
<u>Credits</u>				
Exonerations	1,653	1,377	6,818	1,490
Discounts	21,141	17,024	76,676	19,217
Delinquents:				
Real Estate	24,232	20,143	90,814	21,539
Tangible Personal Property	<u>755</u>	<u>3,993</u>	<u>3,292</u>	<u>26,307</u>
Total Credits	<u>47,781</u>	<u>42,537</u>	<u>177,600</u>	<u>68,553</u>
Taxes Collected	1,530,653	1,262,122	5,594,323	1,239,696
Less: Commissions (a)	<u>65,340</u>	<u>53,640</u>	<u>139,858</u>	<u>52,975</u>
Taxes Due	1,465,313	1,208,482	5,454,465	1,186,721
Taxes Paid	1,465,287	1,208,634	5,456,797	1,186,817
Refunds (Current and Prior Year)	<u>84</u>	<u>64</u>	<u>294</u>	<u>73</u>
Due District or		(b)	(c)	
(Refunds Due Sheriff)				
as of Completion of Fieldwork	<u>\$ (58)</u>	<u>\$ (216)</u>	<u>\$ (2,626)</u>	<u>\$ (169)</u>

(a), (b), and (c) See Next Page.

The accompanying notes are an integral part of this financial statement.

GRANT COUNTY
 CHARLES E. DILLS II, SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period June 1, 2006 Through April 21, 2007
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	4,022,471
2.5% on	\$	5,594,323

(b) Special Taxing Districts:

Library District	\$	(70)
Health District		(42)
Extension District		(30)
Soil Conservation District		(77)
Mental Health District		(19)
Fire Acres District		22

Due District or (Refunds Due Sheriff)	\$	(216)
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(c) School Districts:

Grant County Schools	\$	2,841
Williamstown Independent		(5,467)

Due District or (Refund Due Sheriff)	\$	(2,626)
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The accompanying notes are an integral part of this financial statement.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT

April 21, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRANT COUNTY
NOTES TO FINANCIAL STATEMENT
April 21, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 21, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 27, 2006 through April 21, 2007.

Note 4. Interest Income

The Grant County Sheriff earned \$2,306 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Grant County Sheriff collected \$47,846 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Grant County Sheriff collected \$2,959 of advertising costs and \$940 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2006 taxes, the Sheriff had \$4,365 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darrell Link, Grant County Judge/Executive
Honorable Charles E. Dills II, Grant County Sheriff
Members of the Grant County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Grant County Sheriff's Settlement - 2006 Taxes for the period June 1, 2006 through April 21, 2007, and have issued our report thereon dated November 14, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grant County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Grant County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Grant County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grant County Sheriff's Settlement – 2006 Taxes for the period June 1, 2006 through April 21, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Grant County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Grant County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 14, 2007

COMMENT AND RECOMMENDATION

GRANT COUNTY
CHARLES E. DILLS II, SHERIFF
COMMENT AND RECOMMENDATION

For The Period June 1, 2006 Through April 21, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During the planning of the audit, it was noted that the sheriff's office lacked adequate segregation of duties over receipts and disbursements. The bookkeeper takes payments, prepares the deposit, gives it to the bank, posts to the sheriff's ledgers, and performs the monthly bank reconciliation. We recommend the Sheriff implement the following compensating controls to offset this significant deficiency:

- The Sheriff should recount deposit, agree to the deposit ticket, and initial to show review.
- The Sheriff should agree daily bank deposit to receipts ledger and initial to show review.
- Someone other than the bookkeeper should prepare the bank reconciliation and the statement should remain unopened until that individual performs reconciliation.
- The Sheriff could require two signatures on all checks prepared for payment.

Sheriff's Response: We have controls in place on checks and balances. My office will make initials on all statements as proof.

